



Legislative Audit Division

State of Montana

Report to the Legislature

December 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Montana State Library Commission

This report contains two recommendations to the Montana State Library Commission. The recommendations relate to:

- **Federal Special Revenue Fund Account Balance**
- **Controls over Donation Receipts**

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report, which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

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State Capitol
Helena MT 59620
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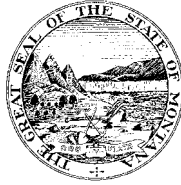
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Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

December 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2005. This report contains two recommendations related to compliance with state and federal laws and policies. This report also contains a disclosure issue regarding the periodical database.

The Library's written response to the audit recommendations is included on page B-3 of the audit report. We thank the Montana State Library Commission, the State Librarian, and the library staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Montana State Library Commission

Members of the audit staff involved in this audit were
Jeane Carstensen-Garrett, Rick Eneas, and Amber Thorvilson.

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Appointed and Administrative Officials

Montana State Library Commission

		<u>Term Expires</u>
Donald Allen, Chairperson	Billings	May 2006
Caroline Bitz Vice Chairperson	Box Elder	May 2007
Linda McCulloch**	Helena	NA
Bruce Morton*	Bozeman	May 2007
Nora Smith	Bozeman	May 2008
Cindy Carrywater	Hays	May 2008
Ron Moody	Lewistown	May 2006

*Appointed by the Commissioner of Higher Education for the
Montana University System

**Superintendent of Public Instruction, Ex officio member

Administration

Darlene Staffeldt, State Librarian

Jim Hill, Program Manager, Statewide Digital Library

Kris Schmitz, Central Services Manager

For additional information concerning the Montana State Library
Commission, contact:

Kris Schmitz
Central Services Manager
1515 East Sixth Avenue
PO Box 201800
Helena MT 59620-1800
E-mail: kschmitz@mt.gov

Montana State Library Commission

This report documents the results of our financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2005. The previous audit report contained no recommendations.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state's accounting records

This report contains two recommendations related to compliance with state & federal laws and policies. This report also contains a disclosure issue regarding the periodical database. The Library's response to our recommendations begins on page B-3.

The listing below serves as a means of summarizing the recommendations contained in the report, the Library's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Library analyze its federal special revenue fund accounts as required by state accounting policy and resolve identified errors..... 4

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the Library establish controls over donations in accordance with state policy. 4

Agency Response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

1. Determine if the Library complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the management and internal controls of the Library.
3. Determine if the financial schedules present fairly the results of operations for each of the two fiscal years ended June 30, 2005.

This report contains two recommendations to the Library. Other areas of concern deemed not to have a significant effect on the successful operations of the Library are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations contained in this report.

Background

The Library was created in 1929 by law, which is codified in Title 22, chapter 1, MCA. The Library is the focal point for the development and improvement of library services in Montana. It provides general library services to Montana state government and operates the Montana State Digital Library, Talking Book Library, Montana Library Network, and Library Development Department.

The Montana State Digital Library was developed following the 2003 Legislature and was the reorganization and combining of the Natural Resource Information System Program (NRIS) with the Library and Information Resources Program. The 1983 Legislature established the NRIS program to improve the availability and accessibility of data and information regarding Montana's natural resources. The Digital Library's staff helps coordinate efforts and data gathering among state agencies and other organizations to reduce duplication and promote information sharing by establishing a clearinghouse with referral service links to sources of information.

Introduction

The three main components of the Digital Library are: the former NRIS system including Water Information System and Montana Geographic Information System, the former Library and Information Services Program, and the Montana Natural Heritage Program, which maintains a computerized inventory of Montana's biological resources, emphasizing rare, threatened, or endangered plant and animal species and biological communities.

In addition to assisting state government, the Library provides services to public, academic and specialized libraries throughout the state through the Talking Book Library, Montana Library Network, and Library Development Department. The services provided include but are not limited to assisting with information/reference needs, material lending, publications depository, statewide library development, services for the blind and visually impaired, improving the availability and accessibility of data and information for use in maintaining Montana's natural resources, providing interactive mapping opportunities, maintaining Montana's field guides, and developing and managing relational database management systems. Library operations and grants to public libraries are funded by General Fund appropriations, federal assistance, and a portion of the Coal Severance Tax. Digital Library operations are primarily funded by contracts with state, federal and local government entities.

Prior Audit Recommendations

The prior financial-compliance audit of the Library for the two fiscal years ended June 30, 2003, did not contain any recommendations.

Findings and Recommendations

Federal Special Revenue Fund Account Balances

Fund balance is misstated as a result of improper revenue recognition.

The Library's federal special revenue fund activity involves several federal grant programs that operate both on a cash advance and cost reimbursement basis. Under state accounting policies, the Library does not earn revenue in these programs until it incurs expenditures that are allowable in accordance with the individual grant agreements and federal regulations. Generally revenue should equal expenditures in these accounts and fund balance at June 30 each year should be zero. State accounting policy provides for some exceptions to the general rule, one of which is "A" accruals. An "A" accrual occurs when the department has a valid obligation against appropriation authority, but has not yet received the goods or services. These obligations, although recorded as expenditures and liabilities, do not result in earning federal revenue until the goods or services are received. These transactions cause recorded fund balance to be negative.

We compared the Library's federal revenues to expenditures for each year of the audit period and found they are not equal for fiscal year 2005. Total federal expenditures exceed revenues by \$6,834 and fund balance is overstated by \$9,383 at June 30, 2005. Department personnel indicated these differences were a result of not recording a receivable from federal government and the related revenue properly at fiscal year end.

The Department of Administration issues a memorandum each fiscal year with instructions and guidance directed to achieving proper account balances in the Federal Special Revenue Fund at fiscal year end. This guidance includes running trial balances during the fiscal year cut-off period and analyzing those reports to determine whether any other accounting entries are needed. The department should analyze its federal special revenue fund activity at fiscal year end to determine what, if any, corrections should be made.

Findings and Recommendations

Recommendation #1

We recommend the Library analyze its federal special revenue fund accounts as required by state accounting policy and resolve identified errors.

Controls Over Donations Receipts

The Library does not have adequate controls in place to ensure donations receipts are safeguarded.

The Montana Talking Book Library is a program within the Library that offers alternative reading materials for those who cannot read or are visually impaired. The Library offers these services free of charge. This program does receive donations, the majority of which come through the mail.

We reviewed the Library's controls over the receipt and processing of donations received through the mail and found there are not adequate controls in place to safeguard the donations receipts. We found one Library employee opens the mail, separates the checks from the mail, and endorses the checks. State policy requires the Library to establish and maintain a system of internal controls over collections and deposits. Without an adequate control system, employees are put in a position where they could perpetrate and conceal errors or irregularities in the normal course of their duties.

Library personnel indicated they did not realize the potential for loss, but would implement procedures to address this issue.

Recommendation #2

We recommend the Library establish controls over donations in accordance with state policy.

Disclosure Issue

Periodical Database

The Montana State Library Commission (Library) purchases a subscription to an on-line periodical database. The Library, in turn, charges a fee and grants access to local libraries around the state on a biennial basis.

The Library received an appropriation from the legislature from the coal severance tax funds to help pay for this database subscription in fiscal years 2004 and 2005. The remaining cost of the database subscription is paid through the subscription fees collected from the local libraries. The subscription fee charged to the local libraries is not based on the original cost of the subscriptions to the Library, but is based on each library's annual materials budget. The Library pays \$250,000 a year for this database of which, \$219,000 is paid from the coal severance tax appropriation and \$31,000 is paid from the subscription fees collected from the local libraries. The Library collected a total of \$127,360 in subscription fees in fiscal years 2004 and 2005. This revenue is deposited in the State Library Private Funds state special revenue fund.

The Library purchased an additional biennial automotive magazine subscription in fiscal year 2004 due to collecting more in subscription fees than the cost of the original database. Library personnel indicated they would continue to purchase additional magazine subscriptions if additional funds were available.

No guidance exists in state policy or law regarding where this revenue should be deposited, or how the cost of the database should be allocated among the funding sources. Since the legislature's intent regarding this program is unclear, we present this as a disclosure issue and make no recommendation at this time.

Independent Auditor's Report & Library Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library Commission for each of the fiscal years ended June 30, 2005, and 2004. The information contained in these financial schedules is the responsibility of the Library's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Library's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana State Library Commission for each of the fiscal years ended June 30, 2005, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett
James Gillett, CPA
Deputy Legislative Auditor

October 7, 2005

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2004	\$ <u>(281,507)</u>	\$ <u>164,053</u>	\$ <u>(2,516)</u>
ADDITIONS			
Budgeted Revenues & Transfers-In		567,787	998,088
NonBudgeted Revenues & Transfers-In	418	52,442	
Direct Entries to Fund Balance	<u>1,609,833</u>	<u>786,646</u>	
Total Additions	<u>1,610,251</u>	<u>1,406,875</u>	<u>998,088</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	1,713,407	1,357,860	1,014,338
NonBudgeted Expenditures & Transfers-Out		500	
Prior Year Expenditures & Transfers-Out Adjustments	<u>115</u>	<u>(1,869)</u>	
Total Reductions	<u>1,713,522</u>	<u>1,356,491</u>	<u>1,014,338</u>
FUND BALANCE: June 30, 2005	\$ <u><u>(384,779)</u></u>	\$ <u><u>214,437</u></u>	\$ <u><u>(18,766)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2003	\$ <u>(373,871)</u>	\$ <u>45,328</u>	\$ <u>0</u>
ADDITIONS			
Budgeted Revenues & Transfers-In		752,860	920,004
NonBudgeted Revenues & Transfers-In	416	8,125	
Direct Entries to Fund Balance	<u>1,589,791</u>	<u>825,762</u>	
Total Additions	<u>1,590,207</u>	<u>1,586,747</u>	<u>920,004</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	1,497,804	1,448,859	922,520
NonBudgeted Expenditures & Transfers-Out		19,229	
Prior Year Expenditures & Transfers-Out Adjustments	<u>39</u>	<u>(66)</u>	
Total Reductions	<u>1,497,843</u>	<u>1,468,022</u>	<u>922,520</u>
FUND BALANCE: June 30, 2004	\$ <u><u>(281,507)</u></u>	\$ <u><u>164,053</u></u>	\$ <u><u>(2,516)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 213	\$ 11		\$ 224
Charges for Services		88,139		88,139
Investment Earnings		2,658		2,658
Miscellaneous	205	54		259
Grants, Contracts, Donations and Abandonments		529,367		529,367
Federal			\$ 967,954	967,954
Federal Indirect Cost Recoveries			30,134	30,134
Total Revenues & Transfers-In	<u>418</u>	<u>620,229</u>	<u>998,088</u>	<u>1,618,735</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>418</u>	<u>52,442</u>		<u>52,860</u>
Actual Budgeted Revenues & Transfers-In	<u>0</u>	<u>567,787</u>	<u>998,088</u>	<u>1,565,875</u>
Estimated Revenues & Transfers-In		1,164,168	2,004,758	3,168,926
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (596,381)</u>	<u>\$ (1,006,670)</u>	<u>\$ (1,603,051)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services		\$ (126,169)		(126,169)
Grants, Contracts, Donations and Abandonments		(470,212)		(470,212)
Federal			\$ (976,543)	(976,543)
Federal Indirect Cost Recoveries	\$		(30,127)	(30,127)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (596,381)</u>	<u>\$ (1,006,670)</u>	<u>\$ (1,603,051)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 217	\$ 48		\$ 265
Charges for Services		126,598		126,598
Investment Earnings		1,110		1,110
Miscellaneous	199	50		249
Grants, Contracts, Donations and Abandonments		633,179		633,179
Federal			\$ 889,870	889,870
Federal Indirect Cost Recoveries			30,134	30,134
Total Revenues & Transfers-In	<u>416</u>	<u>760,985</u>	<u>920,004</u>	<u>1,681,405</u>
Less: Nonbudgeted Revenues & Transfers-In	416	8,125		8,541
Prior Year Revenues & Transfers-In Adjustments				
Actual Budgeted Revenues & Transfers-In	<u>0</u>	<u>752,860</u>	<u>920,004</u>	<u>1,672,864</u>
Estimated Revenues & Transfers-In		1,012,855	2,082,582	3,095,437
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (259,995)</u>	<u>\$ (1,162,578)</u>	<u>\$ (1,422,573)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services		\$ (136)		(136)
Grants, Contracts, Donations and Abandonments		(259,859)		(259,859)
Federal			\$ (1,162,578)	(1,162,578)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (259,995)</u>	<u>\$ (1,162,578)</u>	<u>\$ (1,422,573)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	STATEWIDE LIBRARY RESOURCES
Personal Services	
Salaries	\$ 1,205,645
Other Compensation	3,400
Employee Benefits	362,892
Total	<u>1,571,937</u>
Operating Expenses	
Other Services	915,181
Supplies & Materials	185,969
Communications	55,465
Travel	68,304
Rent	256,346
Repair & Maintenance	76,039
Other Expenses	127,385
Total	<u>1,684,689</u>
Equipment & Intangible Assets	
Equipment	230,799
Intangible Assets	26,005
Total	<u>256,804</u>
Grants	
From State Sources	426,163
From Federal Sources	142,315
From Other Sources	2,443
Total	<u>570,921</u>
Total Expenditures & Transfers-Out	<u>\$ 4,084,351</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 1,713,522
State Special Revenue Fund	1,356,491
Federal Special Revenue Fund	1,014,338
Total Expenditures & Transfers-Out	<u>4,084,351</u>
Less: Nonbudgeted Expenditures & Transfers-Out	500
Prior Year Expenditures & Transfers-Out Adjustments	<u>(1,754)</u>
Actual Budgeted Expenditures & Transfers-Out	4,085,605
Budget Authority	5,000,700
Unspent Budget Authority	<u>\$ 915,095</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 3,221
State Special Revenue Fund	376,790
Federal Special Revenue Fund	535,084
Unspent Budget Authority	<u>\$ 915,095</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	STATEWIDE LIBRARY RESOURCES
Personal Services	
Salaries	\$ 1,252,421
Other Compensation	2,950
Employee Benefits	366,500
Total	<u>1,621,871</u>
Operating Expenses	
Other Services	980,587
Supplies & Materials	125,499
Communications	58,673
Travel	78,616
Rent	245,586
Repair & Maintenance	56,982
Other Expenses	30,705
Total	<u>1,576,648</u>
Equipment & Intangible Assets	
Equipment	89,576
Intangible Assets	5,990
Total	<u>95,566</u>
Grants	
From State Sources	374,769
From Federal Sources	48,563
From Other Sources	170,968
Total	<u>594,300</u>
Total Expenditures & Transfers-Out	<u>\$ 3,888,385</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 1,497,843
State Special Revenue Fund	1,468,022
Federal Special Revenue Fund	922,520
Total Expenditures & Transfers-Out	<u>3,888,385</u>
Less: Nonbudgeted Expenditures & Transfers-Out	19,229
Prior Year Expenditures & Transfers-Out Adjustments	<u>(28)</u>
Actual Budgeted Expenditures & Transfers-Out	3,869,184
Budget Authority	5,061,459
Unspent Budget Authority	<u>\$ 1,192,275</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 96,973
State Special Revenue Fund	344,324
Federal Special Revenue Fund	750,978
Unspent Budget Authority	<u>\$ 1,192,275</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana State Library Commission

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2005

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana State Library Commission (Library) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category, which includes the General, State Special Revenue, and Federal Special Revenue Funds. In applying the modified accrual basis, the Library records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Library to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the Library receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Library uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Notes to the Financial Schedules

State Special Revenue Fund - to account for proceeds of specific state revenue sources other than private purpose trusts or major capital projects that are legally restricted to expenditures for specific purposes. Library State Special Revenue Funds include allocations of Coal Severance Taxes, Resource Indemnity Trust Fund earnings, and Natural Resource Information System contracts with state and private entities.

Federal Special Revenue Fund - to account for proceeds of specific federal revenue sources that are legally restricted to expenditures for specific purposes. Library Federal Special Revenue Funds include the Library Services and Technology Act grants and Natural Resources Information System contracts with federal entities.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The Library has authority to pay obligations from the statewide General Fund within its appropriation limits, and it expends cash or other assets from the statewide fund when it pays General Fund obligations. The Library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2005, and June 30, 2004.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by the Statewide Accounting, Budgeting, and Human Resources System to reflect the flow of resources within individual funds shared by separate agencies. For the Library, these funds include the General Fund, the Resource Indemnity Trust Fund, and the Coal Severance Tax Fund.

4. Revenue Estimates

Budgeted Revenues & Transfers-In were underestimated by \$1,006,670 and \$1,162,578, in the Federal Special Revenue Fund in fiscal years 2005 and 2004, respectively. The Library receives federal grants from the Institute of Museum and Library Services. The Library is allowed two or three years to spend these grant funds. Library personnel include the entire grant award for the current year,

Notes to the Financial Schedules

as well as the remaining funding from previous years, in the
Estimated Revenues & Transfers-In.

Library Response



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November 22, 2005

Scott Seacat
Legislative Auditor
State Capitol
P.O. Box 201705
Helena, MT 59620-1705

I thank the Legislative Audit staff for their assistance and work performed on the State Library Commission Financial-Compliance Audit for the two fiscal years ending June 30, 2005. The rapport they established with our personnel made the effort efficient and time effective. We value and appreciate their assistance and advice. The Library's response to the recommendation follows:

Recommendation #1

We recommend the Library analyze its federal special revenue funds accounts as required by state accounting policy and resolve identified errors.

Response

The Library concurs. The State Library is aware of the state accounting policy, but the wrong trial balance report was run off of SABHRS at fiscal year end. The Library is now aware of the correct trial balance report that includes A accruals and the correct journal entries will be made at the end fiscal year 2006.

Recommendation #2

We recommend the Library establish controls over donations in accordance with state policy.

Response

The Library concurs. The State Library has put in place effective immediately specific steps and procedures to ensure more control over the receipt of donations.

Disclosure Issue:

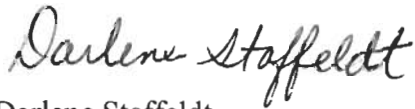
Periodical Database

Response

In response to the disclosure item in this audit report, may I say that this statewide database project is one of the most popular statewide projects that librarians and Montanans throughout the state use and value. To fuel economic development, citizens and businesses need accurate, current, and extensive information. This program is designed to ensure that Montana's citizens can compete nationally and globally by developing businesses and job skills through information resources provided by local libraries. First funded by the 55th legislative, the project allows libraries to subscribe to an extensive magazine database. The database includes full-text articles from 5,812 magazines and journals in all subject fields, including health and business. We have additional information available regarding the project if you need more background for this issue.

Should you have any questions concerning the Library's response, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Darlene Staffeldt".

Darlene Staffeldt
State Librarian

DS:kms